Distr.
GENERAL

PBC.16/3
11 July 2000

ORIGINAL: ENGLISH

United Nations Industrial Development Organization

Programme and Budget Committee

Sixteenth session
Vienna, 4-5 September 2000
Item 7 of the provisional agenda

TRANSITION TO A SINGLE-CURRENCY SYSTEM

Conversion of the 2000-2001 programme and budgets into euros for comparison purposes

Report by the Director General

Reports on the determination of an appropriate exchange rate for the 18 per cent of Member States' contributions currently assessed in United States dollars for the purpose of converting the 2000-2001 regular budget to euros to ensure a realistic comparison with the budgets for future periods.

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V.00-55431 (E)

Distr.: 21 July 2000

Introduction

1. At its eighth session, the General Conference adopted, beginning with the fiscal period 2002-2003, a single currency system of assessment based on the euro for contributions to the regular budget (GC.8/Dec.16). The single currency system will replace the current split-currency system of assessment, in which 18 per cent of the contributions is assessed in United States dollars and 82 per cent in Austrian schillings.

2. In order to ensure a realistic comparison between the current and the 2002-2003 biennial budgets, both the dollar and schilling components of the current budgets need to be converted into euros.

I. THE METHODOLOGY

3. Each of the two components of the budget—the schilling and the dollar portions—requires a different approach.

Austrian schilling portion

4. Since 1 January 1999, the Austrian schilling is a sub-unit of the euro and the exchange rate has been fixed at 1 euro = ATS 13.7603. Accordingly, the 82 per cent schilling component of the 2000-2001 regular budget net appropriations shall be converted into euros by applying the fixed exchange rate.

United States dollar portion

5. For the conversion of the 18 per cent dollar component of the 2000-2001 budget into euros, an appropriate exchange rate needs to be established. The determining consideration should be the purchasing parity of the budgetary amount. In other words, the dollar component of the 2000-2001 budget, expressed in euros, should represent a level of resources equal to the level originally approved under the split-currency system.

6. However, due to exchange rate fluctuations between the euro and the dollar, there is no perfect solution to determine an ideal exchange rate. Instead, there are a few possible approximations, of which one must be selected and applied in full awareness that there might be some deviation from the desired results.

7. The Secretariat has also consulted the European Commission (EC) with a view to obtaining the EC's position on the subject. While the EC has not made any specific recommendation with regard to the UNIDO situation, it has provided information on the budget methodology applied by the EC. The EC's budget preparation process starts in February each year and uses the February exchange rate for budgetary purposes. In case of a significant resource shortage due to exchange rate losses during budget implementation, the Commission may obtain a supplementary budget. The EC's budget cycle is annual and hence the impact of eventual significant exchange rate variations is limited to one year.

II. VARIOUS OPTIONS

8. When identifying possible approximations of an ideal exchange rate, it is necessary to limit the time horizon. The converted 2000-2001 budget will have to serve the preparatory process for the 2002-2003 budget, when it will be initially presented to the Programme and Budget Committee in May 2001. This requires that the Secretariat start working on the proposals as early as October 2000, and the exchange rate should be fixed by December 2000 at the latest.

Option 1: Latest available United Nations rate

9. This option would entail the application of the latest available United Nations exchange rate between the dollar and the euro. While this option is simple from the technical point of view, it does not attempt to limit the effects of exchange rate fluctuations. In the attached table, the exchange rate from July 2000 has been used as the latest available data before the present document was finalized.

10. This option is the method applied by the EC. However, as mentioned earlier, the EC has an annual budget cycle and hence the potential impact of exchange rate variations is time-limited. As UNIDO's fiscal period is a biennium and the budget approval process is also longer, the application of this option appears to be arbitrary for UNIDO's purpose.

Option 2: Average United Nations rate for the available period in the biennium

11. By calculating an average United Nations exchange rate for a given period, the effect of exchange rate fluctuations is reduced. As the purpose is to determine a rate that best preserves the purchasing power of the 18 per cent dollar component of the current budget, the duration of the averaging period should, in theory, fully coincide with the current biennium.

12. However, the timetable of the budget approval process requires that the exchange rate should be available by December 2000 at the latest. Accordingly, an average of euro/dollar exchange rate calculated over the first year of the biennium could be applied.

13. To demonstrate this approach, an average of the first seven months in 2000 has been calculated.

III. ANALYSIS

14. The attached table reproduces the adjustment formula (columns 1 and 2) from General Conference decision GC.8/Dec.17, which established the level of the net requirements for the regular budget in 2000-2001 in dollars and schillings at the major programme level.

15. In order to analyse the differences between the two options, the schilling component was converted into euros through the fixed rate (column 3) and the dollar component by various euro/dollar rates (columns 4 and 6). The total euro equivalent was then calculated by adding the two components (columns 5 and 7).

16. Option 1 shows the application of the July 2000 United Nations exchange rate (the latest available rate at the time of preparation of the present document). Option 2 presents the result of averaging the United Nations exchange rates for the period January to July 2000.

17. The comparison of total net requirements in euros shows that there is little difference between options 1 and 2, due to the fact that the July 2000 exchange rate was close to the average of the first seven months. However, by the end of the year, there could be some difference between the average rate and the December 2000 rate, which is unpredictable at this time. As the purpose of converting the 2000-2001 regular budget into euros is to create a realistic basis for the comparison with future budgets, option 2 seems to satisfy the requirements in the best manner by attempting to even out the impact of monthly fluctuations.

IV. ACTION REQUIRED OF THE COMMITTEE

18. The Committee may wish to consider the following draft conclusion:

"The Programme and Budget Committee:

"(a) Takes note of the report by the Director-General on transition to a single-currency system (PBC.16/3);

"(b) Also takes note that the 82 per cent Austrian schilling portion of the regular budget for 2000-2001 will be converted into euros by applying the fixed exchange rate of 1 euro = ATS 13.7603;

"(c) Decides to convert the 18 per cent dollar portion of the 2000-2001 regular budget into euros by using the January to December 2000 average United Nations euro/dollar exchange rate for the purpose of ensuring a realistic comparison with the regular budgets of future periods;

"(d) Authorizes the Director-General to apply the same conversion methodology on the approved estimates of net expenditures for the purpose of the operational budget, 2000-2001, and for comparison purposes with the budgets of future periods;

"(e) Requests the Director-General to calculate any regular budget growth in his forthcoming proposals for the programme and budgets, 2002-2003, based on the total net requirements of the regular budget, 2000-2001, as determined in paragraph (c) above."

Comparison of different options for the conversion of the regular budget, 2000-2001, into euros

Major Programme	GC.8/Dec.17 ATS portion expressed in ATS 1	GC.8/Dec.17 US$ portion expressed in US$ 2	ATS portion expressed in euros at rate **13.7603** 3	Option 1 US$ portion converted at 07/2000 in euros at UN rate **1.0510** 4	Option 1 Total expressed in euros (3+4) 5	Option 2 US$ portion expressed in euros at UN average rate 01-07/2000 **1.0413** 6	Option 2 Total expressed in euros (3+6) 7
APPROPRIATION							
A. Governing Bodies	70,242,000	233,700	5,104,685	245,619	5,350,304	243,352	5,348,037
B. General Management	120,787,000	1,564,300	8,777,934	1,644,079	10,422,013	1,628,906	10,406,839
C. Strengthening Industrial Capacities	470,099,600	4,212,800	34,163,470	4,427,653	38,591,123	4,386,789	38,550,259
D. Cleaner and Sustainable Industrial Development	201,572,400	1,507,800	14,648,838	1,584,698	16,233,535	1,570,072	16,218,910
E. Regional Programme	144,527,700	15,762,400	10,503,238	16,566,282	27,069,520	16,413,387	26,916,625
F. Administration	292,433,930	2,722,700	21,252,002	2,861,558	24,113,560	2,835,148	24,087,150
G. Buildings Management	517,717,750	849,900	37,624,016	893,245	38,517,261	885,001	38,509,017
Subtotal	1,817,380,380	26,853,600	132,074,183	28,223,134	160,297,317	27,962,654	160,036,837
Estimated income							
E. Regional Programme	0	1,015,200	0	1,066,975	1,066,975	1,057,128	1,057,128
G. Buildings Management	408,825,510	670,600	29,710,508	704,801	30,415,309	698,296	30,408,804
Miscellanous	3,406,890	1,184,400	247,588	1,244,804	1,492,393	1,233,316	1,480,904
Subtotal estimated income	412,232,400	2,870,200	29,958,097	3,016,580	32,974,677	2,988,739	32,946,836
TOTAL NET REQUIREMENTS	**1,405,147,980**	**23,983,400**	**102,116,086**	**25,206,553**	**127,322,640**	**24,973,914**	**127,090,001**